

Message Text

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ACTION EA-09

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E.O. 11652: N/A

TAGS: EFIN, KS

SUBJECT: NEW YORK TIMES ARTICLE ON KOREAN BANK DEBT

REF: SEOUL 9046, SEOUL 9122

1. FOLLOWING IS TEXT LETTER TO NY TIMES SENT BY
FOREIGN BANKERS ASSOCIATION OF KOREA NOVEMBER 25:
QUOTE: MANAGING EDITOR, NY TIMES: TO OUR KNOWLEDGE
NOT ONE AMERICAN BANKER RESIDENT IN SEOUL WAS CON-
TACTED IN COMPILING YOUR RECENT ARTICLE
BY RICHARD HALLORAN ON FOREIGN BANK ATTITUDES
TOWARD SOUTH KOREA. THE ARTICLE DOES NOT REPRESENT
THE VIEWS OF OUR MEMBERSHIP WHICH INCLUDES
THE LARGEST COMMERCIAL LENDERS TO KOREA. SOUTH
KOREA'S RECORD OF PROMPT PAYMENT AND ABILITY TO
RAISE THE FUNDS NECESSARY FOR ITS DEVELOPMENT
SPEAKS FOR ITSELF. WE SUGGEST YOU FOCUS YOUR
ATTENTION ON THE NORTHERN PART OF THE PENINSULA
WHERE 500 MILLION DOLLARS IN FOREIGN DEBT IS IN
DEFAULT. END QUOTE.

2. FOLLOWING IS FULL TEXT EPB DRAFT REBUTTAL
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TO HOLLORAN ARTICLE IN ROUGH TRANSLATIONM

DETAILS OF ROKG PLANS TO REBUT NY TIMES ARTICLE
IN SEPT. QUOTE: ANALYZING THE CONTENTS OF
THE REPORT ON KOREA'S FOREIGN LOANS BY MR.
HALLORAN, NY TIMES CORRESPONDENT IN TOKYO, WE
FIND THAT HIS CONCLUSIONS ARE BASED ON INACCURATE
KNOWLEDGE AND INSUFFICIENT MATERIALS, AND WE
DEEM IT GREATLY REGRETTABLE.

(1) THE REPORT SAYS THAT KOREA'S TOTAL DEBT
FROM MEDIUM - AND LONG-TERM LOANS WILL REACH
\$7 BILLION BY THE END OF THIS YEAR. BUT THIS
REPORT EXCLUDED, INTENTIONALLY OR UNINTENTIONALLY,
THE FIGURES ON REPAYMENT OF FOREIGN LOANS MADE
DURING THE PAST TEN YEARS. THE BALANCE OF DEBT
FROM MEDIUM- AND LONG-TERM LOANS WAS
\$4,350,000,000 BY THE END OF 1974 AND IS PRESUMED
TO BE \$5,828,000,000 BY THE END OF THIS YEAR.

FURTHERMORE, MR. HOLLORAN REPORTS THAT
KOREA'S FOREIGN LOANS ARE INCREASING BY \$2 BILLION
EVERY YEAR AND THE LOANS WILL REACH \$16 BILLION
IN FIVE YEARS, THAT IS, IN 1981. IN THIS CASE, #3 17
NOT TAKE THE REPAYMENT OF PRINCIPAL INTO CON-
SIDERATION. EVEN IF KOREA INDUCES FOREIGN LOANS
OF \$2 BILLION A YEAR, FIVE YEARS FROM NOW, AS MR.
HOLLORAN REPORTS, THE BALANCE OF FOREIGN LOANS
IS EXPECTED TO REACH \$13 BILLION (ONLY).

(2) MR. HOLLORAN EXPRESSED GRAVE CONCERN
ABOUT THE INCREASE IN FOREIGN LOANS, BUT TO TREAT
THE PROBLEM OF FOREIGN LOANS WITH THE BALANCE
OF FOREIGN LOANS ALONE IS INADEQUATE, AND IT IS
IMPOSSIBLE TO DETERMINE WHETHER OR NOT THE
BALANCE OF FOREIGN LOANS IS MANAGEABLE WITHOUT
CONSIDERING THE SCOPE OF KOREA'S ORDINARY REVENUE
BASED ON INCREASING EXPORTS. IN THIS CASE, "DEBT
SERVICE RATE" IS USUALLY USED AS A CRITERION OF
JUDGEMENT. KOREA'S DEBT SERVICE RATIO WAS 12.4
PERCENT IN 1974, AND WILL BE 13.0 PERCENT IN 1975
AND 13.2 PERCENT IN 1976, AND KOREA HAS MAINTAINED
A COMPARATIVELY STABLE LEVEL IN SPITE OF MANY
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DIFFICULTIES AFTER THE RESOURCES CRISIS. THE DEBT
SERVICE RATION IS EXPECTED TO COME DOWN CONSIDERABLY
IN 1981 AND WILL NOT PASS A PEAK OF 15 PERCENT.

(3) MR. HOLLORAN REPORTS THAT KOREA'S
SHORT-TERM DEBTS ARE INCREASING AND FOREIGN
BANKS ARE HESITATING TO EXTEND SHORT-TERM LOANS
TO KOREA, BUT IN FACT KOREA'S CREDIT LIMIT HAS

BEEN CONTINUALLY INCREASING AND FOREIGN BANKS CONTINUED TO OFFER SHORT-TERM LOANS TO KOREA THIS YEAR. HOWEVER, KOREA IS NOT USING SHORT-TERM LOANS ANY MORE, TO DECREASE THE SHORT-TERM DEBT, AND IS ENDEAVORING TO REPLACE SHORT-TERM LOANS BY MEDIUM- AND LONG-TERM LOANS.

KOREA'S FOREIGN EXCHANGE HOLDINGS INCREASED FROM \$1,054,000,000 AT THE END OF 1974 TO \$1,090,000,000 AT THE END OF JUNE THIS YEAR AND \$1,363,000,000 AT THE END OF OCTOBER THIS YEAR, AND ARE EXPECTED TO REACH \$1,450,000,000 BY THE END OF THIS YEAR, BECAUSE DURING THE LATTER HALF OF THIS YEAR KOREA'S EXPORTS HAVE RECOVERED, IMPORTS HAVE BEEN STABILIZED, ORDINARY (TRADE) REVENUE AND EXPENDITURE ARE TURNING FOR THE BETTER AND FOREIGN LOANS ARE SMOOTHLY BEING INDUCED.

(4) AS FOR THE PRESENT STATUS AND FUTURE PROSPECTS OF KOREA'S INTERNATIONAL BALANCE OF PAYMENTS (SINCE MR. HALLORAN EXPRESSED CONCERN ABOUT THIS PROBLEM) IT IS NOT PESSIMISTIC.

IT IS TRUE THAT ORDINARY (TRADE) REVENUE AND EXPENDITURES CONSIDERABLY AND UNPRECEDENTEDLY INCREASED. THIS IS A SHORT-TERM PHENOMENON THAT CANNOT BE AVOIDED AFTER THE OIL CRISIS. AS FOR THE STRUCTURE OF KOREA'S LONG-TERM INTERNATIONAL BALANCE OF PAYMENTS, INCREASES IN EXPORTS HAVE SURPASSED INCREASES IN IMPORTS, AND A SIMILAR TREND IS BEING MAINTAINED EVEN NOW. PRIOR TO THE RESOURCES CRISIS, KOREA HAD MAINTAINED AN ANNUAL AVERAGE INCREASE OF 40 PERCENT IN EXPORTS AND 20 PERCENT LIMITED OFFICIAL USE

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IN IMPORTS. AFTER THE RESOURCES CRISIS THE RATIOS HAVE DECREASED BUT INCREASES IN EXPORTS HAVE SURPASSED INCREASES IN IMPORTS. AS OF NOVEMBER 20, 1975, THE RATE OF INCREASE IN EXPORTS IS 10.7 PERCENT OVER THE SAME PERIOD LAST YEAR, AND IMPORTS WITH KOREAN FOREIGN EXCHANGE INCREASED ONLY BY 0.3 PERCENT.

THE SAME TREND WILL BE MAINTAINED IN THE DAYS AHEAD. THE IECOK ANNUAL CONFERENCE HELD IN JULY THIS YEAR IN PARIS MADE IT CLEAR IN ITS JOINT ANNOUNCEMENT THAT KOREA IS CAPABLE OF INDUCING MEDIUM- AND LONG-TERM FOREIGN CAPITAL OF ABOUT \$2 BILLION SEVERAL YEARS FROM NOW.

KOREA'S EXPORTS KEEP OVERCOMING MANY IDFFICULTIES RESULTING FROM THE DECLINE OF EXPORT PRICES, DESPITE THE

WORLDWIDE DEPRESSION AFTER THE RESOURCES CRISIS. IT IS
AN IMPRESSIVE CONTRAST TO OTHER EAST ASIAN COUNTRIES WHICH
ARE COMPETING WITH KOREA TO INCREASE EXPORTS. END QUOTE.
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